

**CITY OF GAASTRA**

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**Financial Report  
with Supplemental Information  
Prepared in Accordance with GASB 34**

**June 30, 2005**

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>CITY OF GAASTRA</b>	County <b>IRON</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>10/5/05</b>	Date Accountant Report Submitted to State: <b>12/13/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>DS ROSTAGNO, CPA, P.C.</b>			
Street Address <b>101 WEST MAPLE STREET</b>	City <b>IRON RIVER</b>	State <b>MI</b>	ZIP <b>49935</b>
Accountant Signature 		Date <b>12/13/05</b>	

## TABLE OF CONTENTS

Page

<b>INDEPENDENT AUDITOR'S REPORT .....</b>	<b>4</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS.....</b>	<b>7</b>
<b>BASIC FINANCIAL STATEMENTS .....</b>	<b>23</b>
STATEMENT OF NET ASSETS .....	24
STATEMENT OF ACTIVITIES.....	25
BALANCE SHEET - GOVERNMENTAL FUNDS.....	27
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS.....	29
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS.....	30
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN - FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES .....	31
STATEMENT OF FUND NET ASSETS - ENTERPRISE FUNDS.....	32
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - ENTERPRISE FUNDS .....	33
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS.....	34
STATEMENT OF FIDUCIARY NET ASSETS.....	36
<b>NOTES TO THE FINANCIAL STATEMENTS.....</b>	<b>37</b>
<b>REQUIRED SUPPLEMENTAL INFORMATION .....</b>	<b>117</b>
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND.....	118
BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND .....	119
<b>OTHER SUPPLEMENTAL INFORMATION .....</b>	<b>120</b>
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS .....	121
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS.....	122
COMBINING BALANCE SHEET - ALL SPECIAL REVENUE FUNDS.....	123
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL SPECIAL REVENUE FUNDS .....	124
COMBINING BALANCE SHEET - ALL ENTERPRISE FUNDS.....	125
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS - ALL ENTERPRISE FUNDS .....	126
COMBINING STATEMENT OF CASH FLOWS - ALL ENTERPRISE FUNDS.....	127
COMPARATIVE BALANCE SHEET - GENERAL FUND.....	129
STATEMENT OF REVENUES - ACTUAL AND BUDGET - GENERAL FUND.....	130
STATEMENT OF EXPENDITURES - ACTUAL AND BUDGET - GENERAL FUND.....	131
COMPARATIVE BALANCE SHEET - MAJOR STREET FUND.....	134
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY - ACTUAL AND BUDGET - MAJOR STREET FUND.....	135

## TABLE OF CONTENTS

Page

### **OTHER SUPPLEMENTAL INFORMATION (Continued)**

COMPARATIVE BALANCE SHEET - LOCAL STREET FUND .....	137
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY - ACTUAL AND BUDGET - LOCAL STREET FUND .....	138
COMPARATIVE BALANCE SHEET - WATER FUND .....	140
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS - WATER FUND .....	141
STATEMENT OF CASH FLOWS - WATER FUND .....	143
COMPARATIVE BALANCE SHEET - SEWER FUND .....	145
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS - SEWER FUND .....	146
STATEMENT OF CASH FLOWS - SEWER FUND .....	148

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING .....	150
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**INDEPENDENT AUDITOR'S REPORT**

# ***DS Rostagno, CPA, P.C.***

***101 West Maple Street, Iron River, MI 49935***

***Tel (906) 265-1040 Fax (906) 265-1042***

Honorable Mayor and Members of the City Council  
**City of Gaastra**  
PO Box 218  
Gaastra, Michigan 49927

## **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and aggregate remaining fund information of the **City of Gaastra**, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the City Council, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Gaastra** at June 30, 2005, and the respective changes in financial position, and cash flows thereof for the year ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 05, 2005, on our consideration of the **City of Gaastra**'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the report in considering the results of our audit.

The management's discussion and analysis on pages 8 through 22 and the budgetary comparison information are not required parts of the basic financial statements but are supplemental information required by the *Governmental Accounting Standards Board* and by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of the inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **City of Gaastra's** basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dianne S. Rostagno  
DS ROSTAGNO, CPA, P.C.

October 05, 2005

**MANAGEMENT'S DISCUSSION AND ANALYSIS**



# City of Gaastra

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The management of the **City of Gaastra** provides this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. As readers, you are encouraged to read this discussion and analysis in conjunction with the City's financial statement information included in this report.

## *Overview of the Financial Statements*

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The financial section of this report includes management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements are comprised of three components:

- 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

## *Government-wide financial statements*

The government-wide financial statements are designed to provide the readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

# City of Gaastra

P.O. Box 218  
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## *Government-wide financial statements (Continued)*

Both of the government-wide financial statements distinguish functions of the City that are mainly supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, sanitation and health, culture and recreation, and community development. The business-type activities of the City include Water and Sewer Utilities.

## **Fund Financial Statements**

The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. In the basic financial statements, the emphasis of the fund financial statements is on major funds. All of the funds of the City can be divided into three categories: *governmental funds, proprietary funds, and fiduciary funds.*

## **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. In order to provide the reader with information to better understand the long-term impact of the government's near-term financing decisions, a reconciliation between the government-wide financial statements and the fund financial statements is included as part of the basic financial statements.

# City of Gaastra

P.O. Box 218  
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## **Fund Financial Statements (Continued)**

### ***Governmental Funds (Continued)***

The City maintains three governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and major street fund, both of which are considered major funds. All other governmental funds (local street fund) are presented in aggregate. Individual fund data for each fund is presented separately in the "Other Supplementary Information" section of this report.

The City adopts an annual budget for its general and special revenue funds. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general and major street funds, and is included in the "Required Supplementary Information" section of this document.

### ***Proprietary Funds***

Proprietary funds provide services for which the City charges customers a fee. The City has only one type of proprietary fund - enterprise funds. The enterprise funds of the City are used to report the same functions as the business-type activities in the government-wide financial statements. The Water Utility and Sewer Utility funds are presented separately in both the government-wide financial statements and the fund financial statements. Enterprise funds are used to account for operations very similar to business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

### ***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The fiduciary fund for the City is the tax collection fund. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. These funds are presented separately in the fund financial statements section of the basic financial statements.

# City of Gaastra

P.O. Box 218  
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## **Fund Financial Statements (Continued)**

### ***Notes to the Financial Statements***

Notes to the financial statements are included in the basic financial statements and provide additional information that is essential for a full understanding the data provided in the government-wide and the fund financial statements.

### ***Supplementary Information***

Required supplementary information follows the basic financial statements, and includes budgetary comparison schedules for the General Fund and the City's major special revenue funds as presented in the governmental fund financial statements.

Separate combining financial statements for non-major governmental funds are also included in the Other Supplementary Information section of this document.

### ***Government-wide Financial Analysis***

In time, net assets of a governmental entity may serve as a useful indicator of the government's financial position. In the case of the City, assets exceeded liabilities by \$ 1,056,185 at June 30.

By far, the largest portion of the City's net assets is its investment in capital assets (land, buildings, infrastructure, machinery, and equipment), less any outstanding debt related to acquiring the asset. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At June 30, 2005, the City reported \$ 822,278 in net assets invested in capital assets net of related debt.

External restrictions of the City's net assets represent resources subject to existing external obligations or programmatic control on future use. The remaining balance of unrestricted net assets of \$ 133,568 may be used to meet the government's ongoing obligations to citizens and creditors.

# City of Gaastra

P.O. Box 218  
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## Fund Financial Statements (Continued)

### Government-wide Financial Analysis (Continued)

Total net assets in excess of liabilities at June 30 for the governmental activities and business-type activities were \$ 223,011 and \$ 831,834, respectively.

The following summarizes the comparative net assets at fiscal years ended June 30, 2005 and June 30, 2004:

	June 30, 2005		
	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
Current and other assets	\$ 148219	\$ 89449	\$ 237668
Capital assets, net	<u>79893</u>	<u>1260385</u>	<u>1340278</u>
<b>Total assets</b>	<b>228112</b>	<b>1349834</b>	<b>1577946</b>
Long-term liabilities	0	505000	505000
Other liabilities	<u>5101</u>	<u>13000</u>	<u>18101</u>
<b>Total liabilities</b>	<b>\$ 5101</b>	<b>\$ 518000</b>	<b>\$ 523101</b>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	79893	742385	822278
Reserved	9550	89449	98999
Unreserved	<u>133568</u>	<u>0</u>	<u>133568</u>
<b>Total Net Assets</b>	<b>\$ 223011</b>	<b>\$ 831834</b>	<b>\$ 1054845</b>

# City of Gaastra

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## Fund Financial Statements (Continued)

### Government-wide Financial Analysis (Continued)

	June 30, 2004		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 111497	\$ 83628	\$ 195125
Capital assets, net	<u>80613</u>	<u>1282885</u>	<u>1363498</u>
<b>Total assets</b>	<b>192110</b>	<b>1366513</b>	<b>1558623</b>
Long-term liabilities	0	518000	518000
Other liabilities	<u>2518</u>	<u>12000</u>	<u>14518</u>
<b>Total liabilities</b>	<b>\$ 2518</b>	<b>\$ 530000</b>	<b>\$ 532518</b>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	80613	752885	833498
Reserved	12913	34276	47189
Unreserved	<u>96066</u>	<u>49352</u>	<u>145418</u>
<b>Total Net Assets</b>	<b>\$ 189592</b>	<b>\$ 836513</b>	<b>\$ 1026105</b>

For governmental activities, net assets increased by \$ 32,047 (before the change in the application of an accounting principle) during the fiscal year.

For business-type activities, net assets decreased by \$ 3,339 during the fiscal year. Of this amount, a \$ 1,843 decrease is attributed to the Water Fund, and \$ 1,496 is attributed to the Sewer Fund.

# City of Gaastra

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## Fund Financial Statements (Continued)

### Government-wide Financial Analysis (Continued)

For the fiscal years ended June 30, 2005 and 2004, the comparative government-wide results of operations were as follows:

	June 30, 2005		
	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
<b>REVENUES:</b>			
<u>Program Revenues</u>			
Charges for services	\$ 70295	\$ 105404	\$ 175699
Operating grants and contributions	62597	0	62597
Capital grants and contributions	0	0	0
<u>General revenues</u>			
Property taxes	52361	0	52361
Other taxes and fees	744	0	744
Unrestricted grants	50948	0	50948
Other	78114	2971	81085
<b>Total Revenues</b>	<b>\$ 315059</b>	<b>\$ 108375</b>	<b>\$ 423434</b>
<b>EXPENSES:</b>			
General Government	\$ 99158	\$ 0	\$ 99158
Legislative	15349	0	15349
Public safety	30889	0	30889
Public works	35217	0	35217
Streets and highways	64449	0	64449
Sanitation and health	7540	0	7540
Culture and recreation	7162	0	7162
Other Expenditures	11048	0	11048
Community development	0	0	0
Interest on long-term debt	0	0	0
Depreciation (Unallocated)	12200	0	12200

# City of Gaastra

P.O. Box 218  
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## Fund Financial Statements (Continued)

### Government-wide Financial Analysis (Continued)

June 30, 2005			
Primary Government			
	Governmental Activities	Business-type Activities	Total
<b>EXPENSES: (Continued)</b>			
Business-type activities:			
Water	0	65799	65799
Sewer	0	45915	45915
<b>Total Expenses</b>	<b>\$ 283012</b>	<b>\$ 111714</b>	<b>\$ 394726</b>
Change in Net Assets	32047	(3339)	28708
Net Assets, beginning of year	189592	836513	1026105
Cumulative Effect of a Change in Application of Accounting Principle	1372	(1340)	32
<b>Net Assets, end of year</b>	<b>\$ 223011</b>	<b>\$ 831834</b>	<b>\$ 1054845</b>

June 30, 2004			
Primary Government			
	Governmental Activities	Business-type Activities	Total
<b>REVENUES:</b>			
<u>Program Revenues</u>			
Charges for services	\$ 76087	\$ 95721	\$ 171808
Operating grants and contributions	67345	0	67345
Capital grants and contributions	0	0	0
<u>General revenues</u>			
Property taxes	49508	0	49508
Other taxes and fees	1493	0	1493
Unrestricted grants	53141	0	53141
Other	2802	797	3599
<b>Total Revenues</b>	<b>\$ 250376</b>	<b>\$ 96518</b>	<b>\$ 346894</b>



# City of Gaastra

P.O. Box 218  
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## Fund Financial Statements (Continued)

### Government-wide Financial Analysis (Continued)

June 30, 2004			
Primary Government			
	Governmental Activities	Business-type Activities	Total
<b>EXPENSES:</b>			
General Government	\$ 114746	\$ 0	\$ 114746
Legislative	7282	0	7282
Public safety	14880	0	14880
Public works	35089	0	35089
Streets and highways	59494	0	59494
Sanitation and health	10092	0	10092
Culture and recreation	1707	0	1707
Community development	0	0	0
Interest on long-term debt	0	0	0
Depreciation (Unallocated)	<u>11778</u>	<u>0</u>	<u>11778</u>
Business-type activities:			
Water	0	79742	79742
Sewer	<u>0</u>	<u>41560</u>	<u>41560</u>
<b>Total Expenses</b>	<b>\$ 255068</b>	<b>\$ 121302</b>	<b>\$ 376370</b>
Change in Net Assets	(4692)	(24784)	(29476)
Net Assets, beginning of year	194284	861297	1055581
<b>Net Assets, end of year</b>	<b>\$ 189592</b>	<b>\$ 836513</b>	<b>\$ 1026105</b>

### Governmental Activities

Property taxes and other tax revenues comprise \$ 53,105 or approximately 17 percent of total governmental revenues.

# City of Gaastra

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## **Governmental Activities (Continued)**

Operating grants and contributions for governmental activities ended the fiscal year at \$ 62,597, primarily attributable to the State of Michigan's Act 51 funding for major and local streets. At fiscal year end, the City reported \$ 50,948 in grants and contributions not restricted for specific programs. This amount was due entirely to the State of Michigan's state sales tax distribution.

The City expensed \$ 283,012 on governmental programs and services. The largest expense category was incurred for general government, which totaled \$ 99,158, or approximately 35 percent of total expenses. Streets and highway expenses were \$ 64,449 or 23 percent of the total, and public works expenses were \$ 35,217, or 12.4 percent of the total. Public safety expenses were attributed to management's continuing commitment to preserve the lives and property of the residents of the City, with current year expenses of \$ 30,889.

## **Business-type Activities**

Business-type activities decreased the City's net assets by \$ 3,389. Charges for services for the Water and Sewer activities for the year ended were \$ 61,043 and \$ 44,361, respectively.

Total expenses for the Water and Sewer Fund activities for the year ended were \$ 65,799 and \$ 45,915, respectively.

## ***Financial Analysis of the Governmental Funds***

As previously noted, the City uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

## **Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the City's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

# City of Gaastra

P.O. Box 218  
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## *Financial Analysis of the Governmental Funds (Continued)*

### **Governmental Funds (Continued)**

The City's governmental funds reported combined ending fund balances of \$ 143,118, of which \$ 9,550 is reserved and the remaining \$ 133,568 is available for spending at the government's discretion.

The City's primary governmental fund is its general fund. There are no reservations in the general fund's fund balance.

On the budgetary basis of accounting, the City ended the fiscal year with general fund revenues considerably more than the original budgetary projection, but very close to the final amended budget. Total expenditures were also less than the final projection, but substantially more than the original budget. And, at fiscal year end, the fund balance was higher than either the original or the final amended budget projections.

### **Revenues – Actual vs Budget**

	<u>Revenues Original Budget</u>	<u>Revenues Final Budget</u>	<u>Revenues Final Actual</u>	<u>Revenues Variance Actual vs Original Budget</u>	<u>Revenues Variance Actual vs Final Budget</u>
General Fund	\$ 162097	\$ 252935	\$ 252462	\$ 90365	\$ (473)
Major Street Fund	50240	50401	49473	(767)	(928)

### **Expenditures – Actual vs Budget**

	<u>Expenditures Original Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Actual</u>	<u>Expenditures Variance Actual vs Original Budget</u>	<u>Expenditures Variance Actual vs Final Budget</u>
General Fund	\$ 162097	\$ 221993	\$ 216332	\$ (54235)	\$ 5661
Major Street Fund	50240	50965	51614	(1374)	(649)

# City of Gaastra

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## ***Financial Analysis of the Governmental Funds (Continued)***

### **Governmental Funds (Continued)**

General fund financial and budgetary highlights of the fiscal year include:

- \* Use of money and property exceeded final budgetary projections by \$ 21,803.
- \* Charges for services were equal to the final amended budget, coming in at \$ 8,312. This is slightly less than the original budgeted estimates of \$ 9,050.
- \* State of Michigan sales tax distribution of \$ 50,948 was less than anticipated in the final amended budget of \$ 51,761.
- \* Expenditures in total for the general fund were \$ 216,332, less than the final budgetary appropriation of \$ 221,993, but substantially more than the original budget estimate of \$ 162,097.

Major Street Fund financial and budgetary highlights of the fiscal year include:

- \* State of Michigan Act 51 funding for major streets was slightly lower than the original and final budgeted amounts; coming in at \$ 49,473 compared to the original budget of \$ 50,240 and the final budgeted amount of \$ 50,401.
- \* Total expenditures were \$ 51,614, higher than budgeted in either the original or the final amended budget by \$ 1,374 and \$ 649, respectively.

### **Proprietary Funds**

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

# City of Gaastra

P.O. Box 218  
GAASTRA, MICHIGAN 49927  
(906) 265-2141

## *Financial Analysis of the Governmental Funds (Continued)*

### **Governmental Funds (Continued)**

### **Proprietary Funds (Continued)**

Net assets of the Water and Sewer Funds at year-end were \$ 706,660 and \$125,174, respectively. The growth or change in net assets for the Water and Sewer Funds were (\$ 1,843) and (\$ 1,496), respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

## *Capital Asset and Debt Administration*

### **Capital Assets**

The City's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of June 30 is \$ 1,340,278. The investment in capital assets includes land, buildings, improvements, infrastructure, machinery and equipment, and licensed vehicles.

Infrastructure assets represent \$ 1,610,944, or approximately 68 percent of the estimated original cost of total assets. Major and local street funds comprise \$ 220,282, or 14 percent of this infrastructure; the Water Fund's infrastructure is appraised at \$ 1,217,553, or 75 percent of the total; the Sewer Fund's infrastructure is \$ 173,109, or 11 percent of the total. There is no infrastructure attributed to the General Fund.

Significant capital events during the fiscal year ended June 30, 2005 included the City's development of Willow Street, resulting in several new homes being constructed and thereby increasing the City's tax base.

### **Long-term debt**

As of June 30, the City (including the enterprise funds) had total bonded debt outstanding of \$ 518,000. The entire amount of this debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

# *City of Gaastra*

P.O. Box 218  
GAASTRA, MICHIGAN 49927  
(906) 265-2141

## ***Capital Asset and Debt Administration (Continued)***

### **Long-term debt (Continued)**

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation is significantly higher than the City's outstanding general obligation debt.

Currently, the bond program does not maintain underlying bond ratings.

## ***Other Economic Factors and Next Year's Budget***

### **Economic Factors**

Currently, the State of Michigan is experiencing a severe budgetary crisis. As such, it is anticipated that future state budget cuts will likely translate into strategic reductions of City expenses to maintain a fiscally sound budget.

Despite the poor outlook of the State's budget, the City's guiding principles for the upcoming fiscal year is to continue building and maintaining strong neighborhoods, provide good social and cultural conditions that support healthy families, remain a safe and clean city, and invest in opportunities that promote economic growth and financial capacity.

The City's fiscal year 2005-2006 general fund budget is \$ 179,242, representing a decline of \$ 73,220 over the previous fiscal year's actual operating results.

The following areas highlight the City's priorities for the upcoming fiscal year.

- \* Blacktopping of First Street and Center Street.
- \* Secure a grant to connect Apple Blossom Trail from the City of Caspian through Gaastra to Pentoga Park.

# *City of Gaastra*

P.O. Box 218  
GAASTRA, MICHIGAN 49927  
(906) 265-2141

## **Other Economic Factors and Next Year's Budget (Continued)**

### **Economic Factors (Continued)**

- \* Purchase a new pickup truck.
- \* Sell remaining lots on Willow Street and several lots on Nowicki Road.
- \* Replace "Welcome to the City of Gaastra" signs, and obtain advertisers to offset the cost of new signs.

### **Requests for information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

City Manager  
City of Gaastra  
P.O. Box 218  
Gaastra, Michigan 49927

**BASIC FINANCIAL STATEMENTS**



**CITY OF GAASTRA**

**STATEMENT OF NET ASSETS**

JUNE 30, 2005

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals Reporting Entity</u>
<b><u>ASSETS</u></b>			
<b><u>Current Assets</u></b>			
Cash and Cash Equivalents (Note C )	\$ 125,415	\$ 46,726	\$ 172,141
Receivables			
Taxes	5,618	-	5,618
Accounts Receivable	-	3,022	3,022
Due from External Parties	7	-	7
Due from Other Governmental Units	15,839	-	15,839
Internal Balances	1,340	(1,340)	
<b>Total Current Assets</b>	<b>148,219</b>	<b>48,408</b>	<b>196,627</b>
<b><u>Noncurrent Assets</u></b>			
Cash and Cash Equivalents, Restricted	-	41,041	41,041
Capital Assets, Net (Note H )	79,893	1,260,385	1,340,278
<b>Total Noncurrent Assets</b>	<b>79,893</b>	<b>1,301,426</b>	<b>1,381,319</b>
<b>TOTAL ASSETS</b>	<b>\$ 228,112</b>	<b>\$ 1,349,834</b>	<b>\$ 1,577,946</b>
<b><u>LIABILITIES</u></b>			
<b><u>Current Liabilities</u></b>			
Accounts Payable	4,966	-	4,966
Accrued Benefits	135	-	135
Current portion of long-term debt	-	13,000	13,000
<b>Total Current Liabilities</b>	<b>5,101</b>	<b>13,000</b>	<b>18,101</b>
<b><u>Noncurrent Liabilities</u></b>			
Revenue Bonds Payable	-	505,000	505,000
<b>Total Noncurrent Liabilities</b>	<b>-</b>	<b>505,000</b>	<b>505,000</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 5,101</b>	<b>\$ 518,000</b>	<b>\$ 523,101</b>
<b><u>NET ASSETS</u></b>			
Invested in Capital Assets, Net of Related Debt	79,893	742,385	822,278
Reserved for Streets and Highways	9,550	-	9,550
Reserved for Water Fund Repairs/Improvements	-	82,133	82,133
Reserved for Sewer		7,316	7,316
Unreserved and Undesignated	133,568		133,568
<b>TOTAL NET ASSETS</b>	<b>\$ 223,011</b>	<b>\$ 831,834</b>	<b>\$ 1,054,845</b>

The notes to the financial statements are an integral part of this report.

**CITY OF IRON GAASTRA**

**STATEMENT OF ACTIVITIES**

*FISCAL YEAR ENDED JUNE 30, 2005*

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants &amp; Contributions</u>	<u>Capital Grants</u>
Primary Government -				
General government	\$ 99,158	\$ -	\$ -	\$ -
Legislative	15,349			
Public safety	30,889			
Public works	35,217	61,983		
Streets and Highways	64,449		62,597	
Sanitation and health	7,540	8,312		
Culture and recreation	7,162			
Other Expenditures	11,048			
Interest on Long-Term Debt	-			
Intergovernmental	-			
Depreciation (Unallocated)	12,200			
<b>Total Governmental Activities</b>	<b>\$ 283,012</b>	<b>\$ 70,295</b>	<b>\$ 62,597</b>	<b>\$ -</b>
<u>Business-type Activities</u>				
Water	65,799	61,043		
Sewer	45,915	44,361		
<b>Total Business-type Activities</b>	<b>111,714</b>	<b>105,404</b>	<b>-</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 394,726</b>	<b>\$ 175,699</b>	<b>\$ 62,597</b>	<b>\$ -</b>

**General Revenues:**

Taxes:

    Property taxes levied for general operations

    Other

    Penalties and Interest on Taxes

State Sales Tax Distribution

Interest and Investment Earnings

Other

**Total General Revenues**

**Change in Net Assets**

**NET ASSETS-BEGINNING OF YEAR**

Cumulative Effect of a Change in the Application of Accounting Principle

**NET ASSETS-END OF YEAR**

**CITY OF GAASTRA**

**STATEMENT OF ACTIVITIES**

*FISCAL YEAR ENDED JUNE 30, 2005*

**Net (Expense) Revenue and Changes in Net Assets**

<b><u>Governmental Activities</u></b>	<b><u>Business-type Activities</u></b>	<b><u>Total</u></b>
\$ (99,158)	\$ -	\$ (99,158)
(15,349)		(15,349)
(30,889)		(30,889)
26,766		26,766
(1,852)		(1,852)
772		772
(7,162)		(7,162)
(11,048)		(11,048)
-		-
-		-
<u>(12,200)</u>		<u>(12,200)</u>
\$ (150,120)	\$ -	\$ (150,120)
	(4,756)	(4,756)
	<u>(1,554)</u>	<u>(1,554)</u>
	(6,310)	(6,310)
\$ (150,120)	\$ (6,310)	\$ (156,430)
52,361	-	52,361
-		-
744		744
50,948		50,948
1,426	604	2,030
76,688	2,367	79,055
<u>182,167</u>	<u>2,971</u>	<u>185,138</u>
32,047	(3,339)	28,708
189,592	836,513	1,026,105
1,372	(1,340)	32
<u>\$ 223,011</u>	<u>\$ 831,834</u>	<u>\$ 1,054,845</u>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

*JUNE 30, 2005*

	<u>General Fund</u>	<u>Major Street Fund</u>
<b><u>ASSETS</u></b>		
Cash and Investments (Note C )		
Unrestricted		
Receivables:	\$ 120,241	\$ 3,976
Taxes	5,618	
Due from Other Governmental Units	5,976	7,739
Due from Other Funds	5,490	
<b>TOTAL ASSETS</b>	<u><u>\$ 137,325</u></u>	<u><u>\$ 11,715</u></u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>		
<b><u>LIABILITIES</u></b>		
Accounts Payable	3,622	672
Accrued Benefits	135	-
Due to Other Funds	-	3,211
<b>TOTAL LIABILITIES</b>	<u><u>\$ 3,757</u></u>	<u><u>\$ 3,883</u></u>
<b><u>FUND BALANCES</u></b>		
Reserved for Streets		7,832
Unreserved and undesignated	133,568	-
<b>TOTAL FUND BALANCES</b>	<u><u>\$ 133,568</u></u>	<u><u>\$ 7,832</u></u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 137,325</u></u>	<u><u>\$ 11,715</u></u>

<b>CITY OF GAASTRA</b>
------------------------

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

*JUNE 30, 2005*

<u>Nonmajor Governmental Fund</u>	<u>Total Governmental Funds</u>
\$ 1,198	\$ 125,415
	5,618
2,124	15,839
238	5,728
<u>\$ 3,560</u>	<u>\$ 152,600</u>
672	4,966
-	135
1,170	4,381
<u>\$ 1,842</u>	<u>\$ 9,482</u>
1,718	9,550
-	133,568
<u>\$ 1,718</u>	<u>\$ 143,118</u>
<u>\$ 3,560</u>	<u>\$ 152,600</u>

The notes to the financial statements are an integral part of this report.

**CITY OF GAASTRA**

**GOVERNMENTAL FUNDS  
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS**

*JUNE 30, 2005*

**Fund Balances - Total Governmental Funds** **\$ 143,118**

Amounts reported for governmental activities in the statement  
of net assets are different because:

Capital assets used in governmental activities  
are not financial resources and are not  
reported in the funds.

The cost of capital assets is:

609,659

Accumulated depreciation is:

(529,766)

Long term liabilities are not due and payable  
in the current period and are not reported  
in the funds:

Bonds Payable

-

Compensated Absences

-

Other long term assets not available to pay  
current period expenditures therefore  
deferred in the funds

-

Accrued interest is not included as a liability  
in governmental funds

-

**Total Net Assets - Governmental Activities**

**\$ 223,011**

The notes to the financial statements are an integral part of this report.

**CITY OF GAASTRA**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

*YEAR ENDED JUNE 30, 2005*

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>REVENUE</u></b>				
General Property taxes	\$ 52,361	\$ -	\$ -	\$ 52,361
Other local taxes/fees	744			744
Use of money and property	63,409			63,409
Sale of garbage bags	8,312			8,312
Sale of land	74,821			74,821
Charges for services	-			-
Miscellaneous	1,867			1,867
Intergovernmental	50,948	49,473	13,124	113,545
<b>TOTAL REVENUE</b>	<b>\$ 252,462</b>	<b>\$ 49,473</b>	<b>\$ 13,124</b>	<b>\$ 315,059</b>
<b><u>EXPENDITURES</u></b>				
Current Operating:				
General government	99,158			99,158
Legislative	13,838	1,511		15,349
Public safety	30,889			30,889
Public works	30,722			30,722
Streets and Highways		50,103	14,346	64,449
Street Lighting	4,495			4,495
Sanitation and Health	7,540			7,540
Culture and recreation	7,162			7,162
Capital Outlay	11,480			11,480
Other Expenditures	11,048			11,048
<b>TOTAL EXPENDITURES</b>	<b>\$ 216,332</b>	<b>\$ 51,614</b>	<b>\$ 14,346</b>	<b>\$ 282,292</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>36,130</b>	<b>(2,141)</b>	<b>(1,222)</b>	<b>32,767</b>
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
<b>Total Other Financing Sources(Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>36,130</b>	<b>(2,141)</b>	<b>(1,222)</b>	<b>32,767</b>
<b>FUND BALANCE-BEGINNING OF YEAR</b>	<b>97,438</b>	<b>9,973</b>	<b>2,940</b>	<b>110,351</b>
<b>FUND BALANCE-END OF YEAR</b>	<b>\$ 133,568</b>	<b>\$ 7,832</b>	<b>\$ 1,718</b>	<b>\$ 143,118</b>

The notes to the financial statements are an integral part of this report.

**CITY OF GAASTRA**

**GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

*YEAR ENDED JUNE 30, 2005*

**Net Change in Fund Balances - Total Governmental Funds**

**\$ 32,767**

Amounts reported for governmental activities in the statement  
of activities are different because:

Governmental funds report capital outlays as expenditures; in  
the statement of activities, these costs are allocated over their  
estimated useful lives as depreciation.

Depreciation Expense

(12,200)

Capital Outlay

11,480

Revenue reported in the statement of activities that does not provide  
current financial resources and are not reported as revenue  
in the governmental funds

-

Accrued interest is recorded in the statement of activities when  
incurred; it is not reported in governmental funds until paid

-

Repayment of bond principal is an expenditure in the governmental  
funds, but not in the statement of activities (where it reduces  
long term debt)

-

Increases Decreases in compensated absences are reported as  
expenditures when financial resources are used in the governmental  
funds in accordance with GASB Interpretation No. 6

-

**Change in Net Assets of Governmental Activities**

**\$ 32,047**

The notes to the financial statements are an integral part of this report.



**CITY OF GAASTRA**

**STATEMENT OF FUND NET ASSETS  
ENTERPRISE FUNDS**

JUNE 30, 2005

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
<b><u>ASSETS</u></b>			
<b><i>Current Assets</i></b>			
Cash, unrestricted	\$ 41,076	\$ 5,650	\$ 46,726
Accounts Receivable	1,356	1,666	3,022
Due from other funds	-	-	-
<b>Total Current Assets</b>	42,432	7,316	49,748
<b><i>Noncurrent Assets</i></b>			
Restricted cash	41,041	-	41,041
Capital assets:			
Buildings	44,163	-	44,163
Equipment	330,034	-	330,034
Infrastructure	1,217,553	173,109	1,390,662
Less:	(449,223)	(55,251)	(504,474)
Allowance for depreciation	1,142,527	117,858	1,260,385
<b>Total capital assets, net</b>	1,183,568	117,858	1,301,426
<b>Total Noncurrent Assets</b>	1,183,568	117,858	1,301,426
<b>TOTAL ASSETS</b>	<b>\$ 1,226,000</b>	<b>\$ 125,174</b>	<b>\$ 1,351,174</b>
<b><u>LIABILITIES</u></b>			
<b><i>Current Liabilities</i></b>			
Accounts payable	-	-	-
Due to other funds	1,340	-	1,340
Current portion of long-term debt	13,000	-	13,000
Deferred revenues	-	-	-
<b>Total Current Liabilities</b>	14,340	-	14,340
<b><i>Non-current Liabilities</i></b>			
Revenue bonds payable	505,000	-	505,000
<b>Total Non-current Liabilities</b>	505,000	-	505,000
<b>TOTAL LIABILITIES</b>	<b>\$ 519,340</b>	<b>\$ -</b>	<b>\$ 519,340</b>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	624,527	117,858	742,385
Reserved	82,133	7,316	89,449
Unreserved, undesignated	-	-	-
<b>TOTAL NET ASSETS</b>	<b>\$ 706,660</b>	<b>\$ 125,174</b>	<b>\$ 831,834</b>

The notes to the financial statements are an integral part of this report.

**CITY OF GAASTRA**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
ENTERPRISE FUNDS**

*YEAR ENDED JUNE 30, 2005*

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Enterprise Funds</u>
<b><u>OPERATING REVENUES</u></b>			
Charges for Services	\$ 61,043	\$ 44,361	\$ 105,404
Miscellaneous	<u>2,317</u>	<u>50</u>	<u>2,367</u>
<b>TOTAL OPERATING REVENUES</b>	63,360	44,411	107,771
<b><u>OPERATING EXPENSES</u></b>			
Personal Services and Benefits	824	701	1,525
Contractual Services	2,330	31,039	33,369
Repairs and Maintenance	-	-	-
Other Supplies and Expenses	22,171	10,697	32,868
Depreciation	<u>19,021</u>	<u>3,478</u>	<u>22,499</u>
<b>TOTAL OPERATING EXPENSES</b>	44,346	45,915	90,261
<b>OPERATING INCOME (LOSS)</b>	19,014	(1,504)	17,510
<b><u>Non-Operating Revenues (Expenses)</u></b>			
Interest and Investment Revenue	596	8	604
Interest Expense	<u>(21,453)</u>	<u>-</u>	<u>(21,453)</u>
<b>Total Non-Operating Revenues (Expenses)</b>	(20,857)	8	(20,849)
<b>Change in Net Assets</b>	(1,843)	(1,496)	(3,339)
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>708,503</u>	<u>126,670</u>	<u>835,173</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 706,660</u></u>	<u><u>\$ 125,174</u></u>	<u><u>\$ 831,834</u></u>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS**

*FISCAL YEAR ENDED JUNE 30, 2005*

<b>CASH FLOWS FROM (USED BY)</b>	<b><u>WATER FUND</u></b>	<b><u>SEWER FUND</u></b>	<b><u>TOTAL</u></b>
<b><u>OPERATING ACTIVITIES</u></b>			
Net cash received from fees and services	\$ 61,095	\$ 44,196	\$ 105,291
Other operating revenues	2,317	50	2,367
Cash payments to employees for services	(824)	(701)	(1,525)
Cash payments for goods and services	(24,501)	(41,736)	(66,237)
Other operating expenses	-	-	-
	<hr/>	<hr/>	<hr/>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>\$ 38,087</b>	<b>\$ 1,809</b>	<b>\$ 39,896</b>
<b><u>NON CAPITAL AND FINANCING ACTIVITIES</u></b>			
Increase (decrease) in due to other funds	-	-	-
(Increase) decrease in due from other funds	-	-	-
Net operating transfers in (out)	-	-	-
	<hr/>	<hr/>	<hr/>
<b>NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b><u>CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>			
Acquisition and construction of capital assets	-	-	-
Principal payment on long-term bonds	(12,000)	-	(12,000)
Interest paid on long-term bonds	(21,453)	-	(21,453)
Interest and tax expense	-	-	-
Proceeds from borrowings	-	-	-
Contributed capital grants	-	-	-
	<hr/>	<hr/>	<hr/>
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (33,453)</b>	<b>\$ -</b>	<b>\$ (33,453)</b>
<b><u>INVESTING ACTIVITIES</u></b>			
Interest Income	596	8	604
	<hr/>	<hr/>	<hr/>
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>596</b>	<b>8</b>	<b>604</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>5,230</b>	<b>1,817</b>	<b>7,047</b>
Cash and Cash Equivalents, Beginning of Year	76,887	3,833	80,720
	<hr/>	<hr/>	<hr/>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 82,117</b>	<b>\$ 5,650</b>	<b>\$ 87,767</b>

The notes to the financial statements are an integral part of this report.

<b>CITY OF GAASTRA</b>
------------------------

**STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
(CONTINUED)**

*FISCAL YEAR ENDED JUNE 30, 2005*

	<u>WATER FUND</u>	<u>SEWER FUND</u>	<u>TOTAL</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>			
Operating Income (Loss)	\$ 19,014	\$ (1,504)	\$ 17,510
Adjustment to reconcile operating income to net cash provided by operating activities:			
. Depreciation	19,021	3,478	22,499
. Provision for uncollectible accounts	-	-	-
. Changes in assets and liabilities :			
(Increase) Decrease in accounts receivable	52	(165)	(113)
Increase (Decrease) in accounts payable	-	-	-
Increase (Decrease) in deferred revenue	-	-	-
Increase (Decrease) in customer deposits	-	-	-
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b><u>\$ 38,087</u></b>	<b><u>\$ 1,809</u></b>	<b><u>\$ 39,896</u></b>

The notes to the financial statements are an integral part of this report.

CITY OF GAASTRA
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**FIDUCIARY FUND  
STATEMENT OF FIDUCIARY NET ASSETS**

*JUNE 30, 2005*

	<u>2005</u>	<u>2004</u>
<b><u>ASSETS</u></b>		
Cash and Cash Equivalents	\$ 7	\$ 32
<b>TOTAL ASSETS</b>	<u>7</u>	<u>32</u>
<b><u>LIABILITIES</u></b>		
Due to Other Funds	7	32
Due to Other Governmental Units	-	-
<b>TOTAL LIABILITIES</b>	<u>7</u>	<u>32</u>
<b>NET ASSETS</b>	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this report.

**NOTES TO THE FINANCIAL STATEMENTS**

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting methods and procedures adopted by the **City of Gaastra**, Gaastra, Michigan, conform to generally accepted accounting principles as applicable to governmental entities. The following is a summary of the more significant policies:

**THE FINANCIAL REPORTING ENTITY**

The City was organized in 1949 and covers an area of 2 square miles. The City operates under an elected board of five (5) commissioners and provides services to its approximately 376 residents in many areas including law enforcement, general administration and water and sewer services. In accordance with the provisions of GASB 14, certain other governmental organizations are not considered to be part of the City entity for financial reporting purposes. The criteria established by GASB 14 for determining the various governmental organizations to be included in the reporting entity's financial statements include separation of electing governing body and legal status, and fiscal independence.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**THE FINANCIAL REPORTING ENTITY (Continued)**

On this basis, the financial statements of certain other governmental organizations are not included in the financial statements of the City.

**BLENDED COMPONENT UNITS**

A blended component unit is a legally separate entity from the local unit, but is so intertwined with the unit that it is, in substance, the same as the local governmental unit.

A basic strategy of GASB 14 is to present financial information for component units separately from the financial information for the primary government. This is achieved through the discrete presentation method. However, in the case of blended component units, GASB believes that it would be more appropriate to use the blending method to incorporate the financial information of a component unit into the reporting entity's financial statements.



<b>CITY OF GAASTRA</b>
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**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BLENDED COMPONENT UNITS (Continued)**

When the blending method is used, transactions and balances of a component unit are merged with similar transactions and balances of the primary government so that there is no way to identify which balances relate to the component unit and which relate to the primary government.

There are no blended component units to be included in the financial statements of the **City of Gaastra**.

**JOINT VENTURES**

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or an ongoing financial responsibility.

CITY OF GAASTRA
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NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**JOINT VENTURES (Continued)**

An ongoing financial responsibility is defined as a participating government's obligation in some manner for debts or the joint venture's existence depends on continued funding by the participating government.

**West Iron County Sewer Authority**

The City of Gaastra has entered into an agreement with several governmental entities in Iron County to form the West Iron County Sewer Authority.

The Authority was established in August 1972 under the provisions of Act 233, Public Acts of Michigan, 1955, as amended, and was organized to provide sewer service to the cities of Iron River, Stambaugh, Caspian, Gaastra, and a portion of Iron River Township.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINT VENTURES (Continued)

West Iron County Sewer Authority (Continued)

The first grant applications were filed in 1982. Two members from each participating municipality are appointed by their respective governmental entities to serve on the Board of Trustees of the West Iron County Sewer Authority.

Pursuant to the terms of the Authority's Sewer Use Ordinance adopted by the Authority and each Constituent Municipality, the Authority bills each Constituent Municipality monthly based on such Constituent Municipality's percentage of Equal Dwelling Units ("EDUs") to the total number of EDUs for the entire System. Billing to end users is done by each Constituent Municipality using its own billing system and methodology.

Under the EDU system, the Authority adopts a preliminary budget in April of each year for its next fiscal year beginning the following July 01.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**JOINT VENTURES (Continued)**

**West Iron County Sewer Authority (Continued)**

This preliminary budget is presented to each Constituent Municipality for review and consideration in its budgeting process.

Prior to adopting its final budget in June of each year for the fiscal year beginning the following July 01, the Authority holds a public hearing with respect to the preliminary budget. The preliminary and final budgets calculate EDU charges to cover both operation, maintenance, and replacement ("OMR") expenses and debt retirement expenses.

Included in OMR charges are funds for future replacements of all major plant equipment. During the fiscal year ended June 30, 2005, the City of Gaastra paid to the Authority fees totaling \$ 30,209 for OMR and debt retirement.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**JOINT VENTURES (Continued)**

**West Iron County Sewer Authority (Continued)**

Financial statements for the West Iron County Sewer Authority can be requested by writing to:

West Iron County Sewer Authority  
P.O. Box 246  
Caspian, MI 49915

**JOINTLY GOVERNED ORGANIZATIONS**

A jointly governed organization is a multi-governmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility.

CITY OF GAASTRA
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NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINTLY GOVERNED ORGANIZATIONS (Continued)

*Caspian-Gaastra Fire Authority*

The Caspian-Gaastra Fire Authority was formed to organize, equip, and manage a fire department to provide fire protection for the land areas within the boundaries of the Cities of Caspian and Gaastra. The Caspian-Gaastra Fire Authority was formed on February 01, 2002, and, as provided by statute, operates under a Governing Board which consists of 2 members appointed by the governing body of each representative municipality, plus one additional member selected by the Board who shall be a resident of a participating municipality.

The Authority is funded by assessments from the participating municipalities. During the fiscal year ended June 30, 2005, the City paid an assessment of \$ 4,800 to the Authority for fire protection.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**Caspian-Gaastra Fire Authority (Continued)**

Financial statements are available by writing to:

Caspian-Gaastra Fire Authority  
P.O. Box 350  
Caspian, MI 49915

**Stambaugh Cemetery Association**

The Stambaugh Cemetery Association was established by the Cities of Caspian, Gaastra, and Stambaugh, and the Township of Stambaugh on February 17, 1975. The term of duration was designated to be thirty (30) years.

The City of Stambaugh terminated its participation in the Stambaugh Cemetery Association effective June 30, 2000 in conjunction with the consolidation of three municipalities - the Cities of Iron River and Stambaugh and the Village of Mineral Hills.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**Stambaugh Cemetery Association (Continued)**

The purpose of the Association is to acquire, own, improve, enlarge, extend, and operate a cemetery system for residents of the Constituent Municipalities.

The Association operates under a Board of Directors, consisting of two (2) persons appointed by each of the Constituent Municipalities' controlling Boards, and is funded by assessments to each of its participating municipalities.

Financial statements can be obtained by request to:

Stambaugh Cemetery Association  
P.O. Box 218  
Gaastra, MI 49927



**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**Stambaugh Cemetery Association (Continued)**

During the fiscal year ended June 30, 2005, the assessment paid to the Cemetery Association by the City was \$ 2,712.

**RELATED ORGANIZATIONS**

A related organization is an organization for which a primary government is not financially accountable (because it does not impose will or have a financial benefit or burden relations) even though the primary government appoints a voting majority of the organization's governing board.

There are no related organizations to the **City of Gaastra** as defined above.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION**

The City follows GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB Statement No. 34 adds the following components to the financial statements:

***Management's Discussion and Analysis***

A narrative introduction and analytical overview of the government's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

***Government-wide financial statements***

These include financial statements prepared using full accrual accounting for all of the government's activities.

CITY OF GAASTRA
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NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**BASIS OF PRESENTATION** (Continued)

***Government-wide financial statements (Continued)***

This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. The government-wide statements include the Statement Net Assets and the Statement of Program Activities.

***Statement of Net Assets***

The Statement of Net Assets displays the financial position of the primary government (government and business-type activities) and its discretely presented component units.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

***Statement of Net Assets (Continued)***

Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government are broken down into three categories - 1) invested in capital assets, net of related debt; 2) reserved; and 3) unreserved.

***Statement of Program Activities***

The statement of activities reports expenses and revenues in a format that focuses on the cost of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

***Budgetary comparison schedules***

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The City and many other governments revise their original budgets over the course of the year for a variety of reasons.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The reporting model focus is on both the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category).

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**GOVERNMENT-WIDE AND FUND FINANCIAL  
STATEMENTS (Continued)**

Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Both governmental-wide and fund financial statements presentations provide valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the financial information. The City generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**GOVERNMENT-WIDE AND FUND FINANCIAL  
STATEMENTS (Continued)**

The City may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**GOVERNMENT-WIDE AND FUND FINANCIAL  
STATEMENTS (Continued)**

The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The City does not allocate indirect expenses. The operating grants and contributions column includes operating-specific and discretionary (either operating or capital) grants while the capital grants and contributions column reflects capital-specific grants.



**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**GOVERNMENT-WIDE AND FUND FINANCIAL  
STATEMENTS (Continued)**

In the fund financial statements, financial transactions and accounts of the City are organized in the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing sets of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**GOVERNMENT-WIDE AND FUND FINANCIAL  
STATEMENTS (Continued)**

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental activities column of the government-wide financial statements.

The City's fiduciary funds are presented in the fund financial statements by type (pension, private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**GOVERNMENT-WIDE AND FUND FINANCIAL  
STATEMENTS (Continued)**

The following is a brief description of the specific funds used by the City.

**GOVERNMENTAL FUNDS**

These funds are those through which most governmental functions typically are financed.

The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities, except those accounted for in the Proprietary Fund, are accounted for through the Governmental Funds. These funds are as follows:

**General Fund**

This fund is used for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit.

CITY OF GAASTRA
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NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**BASIS OF PRESENTATION** (Continued)

**GOVERNMENTAL FUNDS** (Continued)

**General Fund** (Continued)

Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

The General Fund is always considered to be a major fund for reporting purposes.

**Special Revenue Funds**

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action. The City's *Major & Local Street Funds* are *Special Revenue Funds*. The *Major Street Fund* is considered a major fund for reporting purposes.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**BASIS OF PRESENTATION** (Continued)

**GOVERNMENTAL FUNDS** (Continued)

**Debt Service Fund**

This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Currently, the **City of Gaastra** does not require a debt service fund. The governmental funds use the modified basis of accounting.

**Capital Projects Fund**

These funds are used to account for the purchase and/or construction of capital facilities by a governmental unit which are not accounted for by Proprietary Funds, Special Assessment Funds, or Trust Funds.

Currently, the **City of Gaastra** does not require a Capital Projects Fund.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**BASIS OF PRESENTATION** (Continued)

**PROPRIETARY FUNDS**

**Enterprise Funds**

These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises----where the intent of the governing body is that the costs (expenses including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purpose. The *Water Fund* and *Sewer Funds* are *Proprietary Funds*.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**FIDUCIARY FUNDS (Continued)**

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity for individuals, private organizations, other governmental units, and/or other funds.

The City's *Current Tax Collection Fund* is a *Fiduciary Fund*. Agency funds are custodial in nature and do not involve measurement of results of operations.

**MEASUREMENT FOCUS**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**MEASUREMENT FOCUS (Continued)**

With this measurement focus, only current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide statement of net assets and statement of activities, all proprietary funds, and private-purpose trust funds and pension trust funds (when applicable) are accounted for on a flow of economic resources measurement focus.



**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**MEASUREMENT FOCUS (Continued)**

With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the statement of net assets or on the statement of fiduciary net assets. Proprietary fund-type operating statements present increase (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The statement of net assets, statement of activities, financial statement of Proprietary Fund and Fiduciary Funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**MEASUREMENT FOCUS (Continued)**

The fund financial statements of the General, Special Revenue, Debt Service, and Capital Projects funds are maintained and reported on (when applicable) the modified basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term "available" is limited to collection within sixty days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants revenue is considered to be measurable and available as revenue when related eligible expenditures are incurred.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**MEASUREMENT FOCUS (Continued)**

Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

The local government unit applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**ENCUMBRANCES**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed for accountability purposes only.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**ENCUMBRANCES**

It is the City's policy to honor all unfilled contracts/orders at year-end, but the authority to complete these transactions is provided by the new year's budget appropriations, as unexpended appropriations of the current year lapse at year-end.

**CASH AND CASH EQUIVALENTS**

The City pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements.

The City classifies cash on hand, cash on deposit (including certificates of deposit), and highly liquid investments with an original maturity of ninety days or less when purchased as cash in its financial statements.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**INVENTORIES**

Inventories of supplies are expended as received.

**RECEIVABLES**

Accounts which will be collected within sixty days of year-end are accrued as accounts receivable in the General and Special Revenue Funds. User charges for the Proprietary Fund are recorded as receivable when billed. On an annual basis the charges are reviewed for collectibility. Those deemed uncollectible are assigned to the tax roll.

**INTEREST RECEIVABLE**

Interest on certificates of deposit is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

CITY OF GAASTRA
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NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

*JUNE 30, 2005*

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**BASIS OF PRESENTATION** (Continued)

**DUE TO/FROM OTHER FUNDS**

Transactions between funds that had not been paid or received as of fiscal year end have been recorded as inter-fund accounts receivable and payable in the financial statements. These inter-fund receivables and payables do not represent Board-approved loans between funds.

**DEFERRED REVENUE**

Deferred revenue represents amounts under the modified accrual basis of accounting for which asset recognition criteria have been met but for which revenue recognition criteria have not been met, whereby such amounts are measurable but not considered currently available resources.

At June 30, 2005, the City had no deferred revenue.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**FUND EQUITY**

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances represent the amount that has been legally identified for specific purposes. Designated fund balances represent amounts earmarked by the City for future expenditures.

Unreserved retained earnings represent net assets available for future operations or distribution. Reserved retained earnings represent net assets that have been legally identified for specific purposes. Designated retained earnings represent amounts earmarked by the City for future expenditures.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BUDGETS AND BUDGETARY ACCOUNTING**

The City follows the State of Michigan Uniform Budgeting and Accounting Act for budgeting procedures.

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and special revenue funds. Unexpended appropriations lapse at fiscal year-end.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30 of the preceding fiscal year, the City prepares a budget for the next fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.



**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BUDGETS AND BUDGETARY ACCOUNTING**  
**(Continued)**

2. A meeting of the City Council is then called for the purpose of adopting the proposed budget after sufficient public notice of the meeting has been given.
3. Prior to July 01, the budget is legally enacted through passage of a resolution by the members of the City Council.

Once the budget is approved, it can be amended at the Fund and Function level only by approval of a majority of the members of the City Council. Amendments are presented to the Council at their regular meetings. Each amendment must have Council approval.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**PROPERTY TAXES**

The City's property taxes are levied and become a lien on each July 01st based on the taxable valuation of property located in the City as of the preceding December 31st.

These taxes are due on February 14th before they are added to the county delinquent tax rolls on March 01. The County of Iron purchases from the City delinquent real property taxes outstanding as of March 31st of each year.

Although the City ad valorem tax is levied and collectible on July 01st, it is the City's policy to recognize revenue from the current tax levy in the fiscal year for which they have been levied and become available. The 2004 taxable valuation of the City totaled \$ 2,704,777 on which ad valorem taxes levied consisted of 19.3592 mills for the City operating purposes.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**NON-MONETARY TRANSACTIONS**

The Single Audit Act of 1984, as amended, and OMB Circular A-133 defines federal financial assistance to include both monetary and non-monetary forms of assistance provided by or passed down from a federal agency, such as grants, contracts, loans, loan guarantees, property, etc.

**CAPITAL ASSETS**

Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds and as assets in the governmental-wide statements to the extent the City's capitalization threshold of \$ 1,000 is met. Depreciation is recorded on general fixed assets on a government-wide basis using the straight-line method and the following estimated useful lives:

**Buildings..... 20 - 30 years**

**Infrastructure..... 10 - 65 years**

**Furniture and Other**

**Equipment..... 5 - 20 years**

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**CAPITAL ASSETS (Continued)**

To the extent the City's capitalization threshold of \$ 1,000 is met, capital outlays of the Proprietary Funds are recorded as fixed assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the governmental-wide basis using the straight-line method and the following estimated useful lives:

**Land Improvements..... 20 years**

**Equipment..... 5 - 20 years**

All fixed assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF PRESENTATION (Continued)**

**CAPITAL ASSETS (Continued)**

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

**COMPENSATED ABSENCES**

***Sick Leave***

Full time City employees are granted sick leave under Ordinance 21-B at the rate of one half day per every 173 hours worked. Sick leave can be accumulated up to a maximum of 18 days.

CITY OF GAASTRA

NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)

JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**COMPENSATED ABSENCES** (Continued)

***Sick Leave (Continued)***

An employee who quits, is discharged, or retires forfeits all rights to draw sick leave pay.

At June 30, 2005, the City's liability for accrued sick leave, plus the related costs of FICA and Medicare, was \$ 3,790.

***Vacation***

Ordinance 21-A grants vacation benefits to full-time employees with one year or more of continuous service who have received earnings in at least 50% of the pay periods in the preceding calendar year, and have not been absent from work for six consecutive months or more in the preceding calendar year. An employee forfeits the right to receive vacation benefits if he/she quits or is discharged prior to January 01 of the vacation year.

**CITY OF GAASTRA**

**NOTES TO THE FINANCIAL STATEMENTS  
(CONTINUED)**

*JUNE 30, 2005*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**COMPENSATED ABSENCES (Continued)**

**Vacation (Continued)**

On June 30, 2005, the City's potential liability for accrued vacation, plus the related costs of FICA and Medicare, was \$ 4,456.

GASB 16 establishes standards of accounting and reporting for compensated absences, and requires recognition of the liability in the financial statements if the employees' right to receive compensation is based on past service, and it is probable that the employee will receive the accrued benefit at separation. Because of the City's ordinance that employees forfeit all right to such benefits at termination, liability for compensated absences is not reported in the financial statements.

**POST EMPLOYEE BENEFITS**

The City of Gaastra provides no post-employment benefits other than MERS pension.